

**ERIE COUNTY CLERKS OFFICE****County Clerk's Recording Page**

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CHAUTAUQUA ENERGY
8850 WEST ROUTE 20
PO BOX 100
WESTFIELD NY 14787

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INDEX:

Party 1:

KOWTUN ANTHONY

Party 2:

CHAUTAUQUA ENERGY DRILLING**Recording Fees:**

RECORDING	\$26.50
COE CO RET	1.00
COE STATE GENERAL	\$14.25
COE STATE RM	\$4.75
TP584	\$10.00

Consideration Amount:**\$1.00**

BASIC	\$0.00
SONYMA	\$0.00
ADDL	\$0.00
NFTA MT	\$0.00
TRANSFER	\$0.00
NFTA TT	\$0.00

Total: \$56.50

STATE OF NEW YORK
ERIE COUNTY CLERK'S OFFICE

WARNING - THIS SHEET CONSTITUTES THE CLERK'S ENDORSEMENT,
REQUIRED BY SECTIONS 319&316-a (5) OF THE REAL PROPERTY LAW
OF THE STATE OF NEW YORK. DO NOT DETACH. THIS IS NOT A BILL.

Kathleen C. Hochul
County Clerk

CHAUTAUQUA ENERGY DRILLING

Non - Drilling Oil and Gas Lease

Agreement made and entered into the 25th day of February, 2008. By and between Anthony Kowtun and Renate Kowtun, 153 Aurora Avenue, W. Seneca, NY 14224 County of Erie and State of New York parties of the first part, hereinafter called the Lessor, and Chautauqua Energy Drilling, 8850 West Route 20, PO Box 100, Westfield, NY 14787, party of the second part, hereinafter called the Lessee, WITNESSETH.

1. The Lessor for and in consideration of the sum of One (\$1.00) Dollar in hand paid, receipt of which is hereby acknowledged, has this day granted and leased and hereby grants and conveys unto Lessee all of the oil and gas under the following described land, together with the right to Lessee to remove the same.

All of that certain tract of land situated in the Township of Evans County of Erie, State of New York and bounded substantially by the following lands:

On the North by lands of National Grid

On the East by lands of Alfred Dickinson

On the South by lands of Sturgeon Point Road

On the West by lands of Lynne Penfold

Containing 7 acres, more or less, and more fully described in Deed Book or Liber 8042 at Page 75, Index Number SBL 205-1-24

2. It is expressly agreed and understood that Lessee is not granted the right to drill on the surface of the lands herein above described. If as a result of its operation, Lessee damages growing crops, fences or buildings, Lessee will pay to Lessor, reasonable money damages or correct the damages Lessee has caused Lessor, providing Lessee has received written notice from Lessor specifying the said damages. Lessee agrees to restore as much as possible, all surfaces used by Lessee to their condition existing prior to drilling. Trees, bushes and other growth removed due to site preparation or production requirements will not have to be replanted; however, Lessee agrees that those surfaces shall be restored to a useable condition. Any expenditures made by Lessor in connection with any and all damages resulting from Lessee's operations will not be honored by Lessee without the specific written consent of Lessee.

3. Lessor hereby covenants that he is seized of an indefeasible fee simple estate in the lands hereinbefore described subject to existing easements, together with all the oil and gas underlying the same, and that he will forever warrant and defend the leasehold estate hereby demised unto the Lessee against the claims and demands of all persons whomsoever, and that Lessee shall have the exclusive, full, free and quiet possession of the said described premises for Lessee's business purposes and during the term herein set forth. Lessor hereby agrees that in the event of Lessor's default in the payment of any mortgage, taxes or other encumbrances on the above described premises, any royalty or rental due hereunder shall be assigned and shall be payable to the holder thereof without any further consent of Lessor. Lessor further agrees that the Lessee at its option may pay and discharge, when defaulted any and all taxes, mortgages or liens existing, levied or assessed on or against the above described lands, and in the event Lessee exercises such option, it shall be subrogated to the rights of any holders thereof and may reimburse itself by applying to the discharge of any such mortgage, tax or other lien, any royalties or rentals accruing hereunder to the extent that they are adequate.

4. It is agreed that this lease shall remain in force for the term of one (1) year(s) from the above date and as long thereafter as oil or gas or either of them is produced from said lands, or any other land pooled or unitized therewith as provided in paragraph 5 hereof or as long thereafter as said premises are operated by Lessee in search for or production of oil or gas, or can be as long as gas is being stored, held in storage, or withdrawn from the premises by Lessee, or as long as this lease is extended by any other provision contained herein.

5. Lessee is hereby granted the right to pool and unitize any stratum or strata under all or any part of the land described above with any other lease or leases, land or lands, mineral estates, or any of them, whether owned by the Lessee or others, so as to create one or more drilling or production units. Such drilling or production units shall not exceed 60 acres in extent if gas or condensate is produced and 40 acres if oil is produced and shall conform to the rules and regulations of any lawful governmental authority having jurisdiction in the premises, and with good drilling or production practice in the area in which the land is located. In the event of the unitization of the whole or any part of the land covered by this lease, Lessee shall before or after the completion of a well, record a copy of its unit operation designation in the County wherein the leased premises are located, and mail a copy thereof to the Lessor. In order to give effect to the known limits of the oil and gas pool, as such limits may be determined from available geological or scientific information or drilling operations. Lessee may at any time increase or decrease that portion of the acreage covered by the lease which is included in any drilling or production unit, or exclude it altogether provided that written notice thereof shall be given to Lessor promptly. As to each drilling or production unit designated by the Lessee, the Lessor agrees to accept and shall receive out of the production or the proceeds from the production from such unit, such proportion of the royalties specified herein, as the number of acres out of the lands covered by this lease which may be included from time to time in any such unit, bears to the total number of acres included in such unit. The commencement of drilling, completion of or production from a well, whether drilled before or after unitization, on any portion of the unit created under the terms of this paragraph shall have the same effect upon the terms of this lease as if a well were commenced, drilled, completed or producing involving the land described herein.

6. In consideration of the premises the Lessee covenants and agrees to pay the following royalties:
(OIL) and (GAS): One-eighth (1/8) of the value of all gas (except storage gas) and/or oil produced, saved and marketed from the premises, calculated at the price paid at the connecting point by the pipeline operator.

The time and method of marketing production of gas and/or oil from the leased premises and the amount thereof that shall be used or marketed within any period of time shall be entirely within the discretion of the Lessee.

7. If operations for drilling are not commenced on acreage pooled herewith as herein provided on or before February 25, 2009 this lease shall terminate both parties.

8. All payments or tenders hereunder may be made direct to Lessor or his respective heirs or assigns by check or draft payable to the order of Anthony Kowtun and Renate Kowtun and mailed or delivered to 153 Aurora Avenue, W. Seneca, NY 14224 on or before the date of payment. No change of ownership of the leased premises shall be binding upon Lessee until ninety (90) days after Lessee shall have been furnished with a copy of a recorded instrument or instruments evidencing such change of ownership. In the event of the death of any person entitled to rentals hereunder, Lessee may pay or tender such rentals to the credit of the deceased, or the estate of the deceased, until such time as Lessee has been furnished with proper evidence of the appointment or qualification of an administrator or executor, or, if there be none, then until Lessee is furnished satisfactory evidence as to the heirs or devisees of the deceased.

9. Lessee, at any time, and from time to time may surrender this lease as to all or any part or parts of leased premises by tendering an appropriate instrument of surrender to the Lessor, and thereupon this lease, and the rights and obligations of the parties hereunder, shall terminate as to the part or parts so surrendered.

10. Lessee shall not be required in any event to make payment to Lessor for oil and/or gas that may have been heretofore sold, reserved or conveyed by said Lessor or by his predecessors in title or otherwise; and if the Lessor does not have title to all the oil and gas in the leased premises or to the storage rights herein leased, there shall be refunded such part of all payments made by the Lessee hereunder as shall be proportionate to the outstanding title and all payments and royalties thereafter to be made shall be reduced in the same proportion.

11. In case of notice of, or an adverse claim to the premises, affecting all or any part of the rentals, storage rentals or royalties, Lessee may withhold payment or delivery of the same until their ownership is determined by compromise, or by final decree of a court of competent jurisdiction, and to this end Lessee may file a petition for interpleaded or any other petitions.

12. All terms, conditions, limitations and covenants between the parties hereto shall extend to their respective heirs, successors personal representatives and assigns.

13. This lease shall not be terminated, in whole or in part, nor shall Lessee be held liable for damages for failure to comply with the express or implied covenants hereof, if compliance therewith is prevented by, or if such failure is the result of interference by an act of God, weather, strikes, riots, war, court actions, any Federal or State laws, executive orders or municipal rules or regulations, whether valid or invalid, and similar factors beyond Lessee's control. During any period that Lessee is unable to comply with the obligations herein by reason of any of the above recited causes, this lease shall remain in full force and effect and if any period of suspension

occurs during the primary term, the time thereof shall be added to the term. However, Lessee will resume paying delay rentals on the first anniversary of this lease occurring ninety (90) days after initial interference from one of the above causes.

14. The breach by Lessee of any obligation arising hereunder shall not work a termination of this lease, and Lessor's exclusive remedy shall be money damages.
15. This instrument constitutes the entire agreement between Lessor and Lessee, and it shall not be amended, altered, modified or changed in any way whatsoever except by written agreement signed by all the parties hereto, and no implied covenants, agreements or obligations shall be read into the lease damages.
16. New York State only - If this lease becomes forfeited, terminated or expires, the lessee, or if the lease has been assigned, the assignee is required to provide a document canceling the lease as of record, at no cost to the current landowner. If the lessee or assignee fails to cancel the lease, the current landowner may compel a cancellation pursuant to the Section 15-304 of the General Obligations Law. Executed in connection with this lease and incorporated herein by reference is an addendum dated simultaneously herewith.
17. This is a non-drilling oil and gas lease; Lessee has no right to enter Lessor's property for any purposes, i.e., pipeline right-of-ways, roadways, ingress/egress, well tending, meter reading, or any other activities to do with oil and gas drilling operations.

THIS IS A LEASE OF OIL AND GAS RIGHTS, NOT A SALE, CONTAINING TERMS THAT MAY BE NEGOTIATED BY YOU. YOU HAVE THE RIGHT TO CANCEL THIS LEASE WITHIN THREE BUSINESS DAYS AFTER EXECUTION OF THE LEASE BY NOTIFYING THE LESSEE THAT YOU HAVE CANCELLED THIS CONTRACT. IN ORDER TO CANCEL THIS LEASE, YOU MUST EXECUTE A NOTICE OF CANCELLATION IN THE FORM PROVIDED BELOW, MAIL IT TO THE LESSEE AND REFUND ALL AMOUNTS PAID TO YOU BY THE LESSEE WITHIN THE THREE-DAY CANCELLATION PERIOD. THE MAILING MUST BE POSTMARKED WITHIN THE THREE-DAY CANCELLATION PERIOD TO BE EFFECTIVE.

NOTICE OF CANCELLATION
I/WE HEREBY CANCEL THIS LEASE.
DATED:
SIGNATURE:

THE PERSON PRESENTING THIS LEASE TO YOU IS () IS NOT () A MEMBER OF _____ AND THEREFORE IS () IS NOT () SUBJECT TO A CODE OF CONDUCT. IF THE PERSON PRESENTING THIS LEASE TO YOU IS SUBJECT TO A CODE OF CONDUCT, A COPY OF THE CODE OF CONDUCT MUST BE PRESENTED TO YOU WITH THIS LEASE. IF APPLICABLE, THE CODE OF CONDUCT PROVIDES A DISPUTE RESOLUTION MECHANISM FOR ANY DISPUTE THAT YOU MAY HAVE REGARDING THE MANNER BY WHICH THIS LEASE WAS PRESENTED TO YOU. IF YOU HAVE ANY SUCH DISPUTE, YOU MAY INVOKE THE DISPUTE RESOLUTION MECHANISM OF THE CODE OF CONDUCT BY CONTACTING THE PERSON OR PERSONS DESIGNATED IN THE CODE OF CONDUCT. THE FAILURE OF THE LESSEE TO PAY ANY ROYALTIES TO YOU AS REQUIRED UNDER THE TERMS OF THE LEASE FOR A PERIOD OF FOUR CONSECUTIVE MONTHS OR MORE SHALL BE A DEFAULT UNLESS OTHERWISE PROVIDED BY LAW, AND WILL RESULT IN CANCELLATION OF THE LEASE APPLICABLE TO THE TARGET FORMATION OF THE WELL WITHIN THE SPACING UNIT, FOLLOWING WRITTEN NOTIFICATION TO THE LESSEE OF YOUR INTENT TO CANCEL AND SIXTY DAYS FOR THE LESSEE TO CURE THE DEFAULT. IF THE LESSEE HAS A BONA FIDE DISPUTE REGARDING THE GROUNDS FOR CANCELLATION, SUCH DISPUTE AND THE REASONS THEREFOR MUST BE PROVIDED TO YOU IN WRITING OR THE DEFAULT MUST BE CURED WITHIN SUCH SIXTY DAY PERIOD, OTHERWISE THE LEASE SHALL BE CANCELLED.

IN WITNESS WHEREOF, the lessor has/have hereunto set its/their hand(s) the day and year first above written.

WITNESS:

LESSOR:

Paul W. Kurzel / Anthony Kowton
SS# 081-28-1942
Paul W. Kurzel / Denade Kowton
SS# 119-28-2096

STATE OF NEW YORK, COUNTY OF ERIE ss:

On 2-25-08 before personally came Anthony Kowton and Denade Kowton personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies) and that by his/her/their signature(s) on the instrument, the individual(s) or the person on behalf of which the individual(s) acted, executed the instrument.

Paul W. Kurzel
Notary Public

My Commission Expires:

PAUL W. KURZEL
Notary Public, State of New York
Qualified in Erie County
My Commission Expires

This instrument prepared by Chautauque Energy Drilling, Inc., 8850 West Route 20, Westfield, NY 14787

Please return after recording to Chautauqua Energy Drilling, Inc., 8850 West Route 20, Westfield, NY 14787

July 22, 2010